Thom McAn
Thom McAn
Thom McAn
NEW IDEAS IN SHOE IDEAS

MELVILLE SHOE CORPORATION
ANNUAL REPORT 1967

GO

Don't Cut

Ward Melville, Chairman of the Board, left, with Murray M. Rosenberg, Chairman of the Executive Committee. The Melville Shoe Corporation was founded by Mr. Melville's father in 1892. The Melvilles, father and son, formed Thom McAn in 1922. Mr. Rosenberg, who founded Miles Shoes in 1917, joined Melville when the two companies merged in 1952.

MELVILLE SHOE CORPORATION ANNUAL REPORT 1967

Contents

Letter to Shareholders 2
Highlights 3
Review of Operations 5
Store Locations 12
Financial Review 13
Financial Statements 14
Auditors' Report 17
Ten Year Financial Summary 18
Statement of Source and Application of Funds 19
Officers and Directors 20

Annual meeting of stockholders will be held at the Executive Offices in New York City on April 9, 1968

Melville Shoe Corporation Operating Committee. Front row: FRANCIS C. ROONEY, JR., President, center; SPENCER D. OETTINGER, Executive Vice President, left; FRANCIS H. GLEASON, Vice President, right. Back row, left to right: ARTHUR B. GOLD, General Manager, Miles Shoes division; ROBERT C. KUHN, General Manager, Meldisco division; KENNETH K. BERLAND, Vice President and Treasurer of the Corporation; LAWRENCE E. McGOURTY, General Manager, Thom McAn division; RICHARD E. WEST, General Manager, J. F. McElwain Company division. Photo taken at MSC management seminar.

To the Shareholders

February 23, 1968

For the fourth consecutive year, net earnings of Melville Shoe Corporation and subsidiaries reached a record high, totaling $14,370,223 for 1967, compared with $11,191,530 in 1966, an increase of 28.4 percent. Per-share earnings for the average number of shares outstanding were $5.08 in 1967 as compared with $3.88 in 1966. All divisions and chains of the Company showed a substantial increase in both sales and earnings.

The all-time high earnings of 1967 were achieved on total net sales of $258,752,353, an increase of 10.4 percent.

During 1967, the total number of units operated by Melville and its subsidiaries increased to 1,366 from 1,314 at the end of 1966, as we continued to "go where the people are", capitalizing on the expanding affluent, young-family market in the suburbs. We opened 103 new stores in 1967 and closed 51 as well as modernized a number of existing stores. Plans for 1968 call for the opening of 150 stores and departments.

On January 9, 1968, the Board of Directors proposed a two-for-one split on Melville common stock to be voted on by the stockholders at the annual meeting April 9, 1968. The Board also voted to increase the quarterly dividend on existing shares to 55 cents from 40 cents.

The increased dividend placed Melville stock on a $2.20 annual basis, up from the $1.60 per share paid during 1967. The quarterly common stock dividend at the new rate was made payable February 1, 1968 to holders of record January 22, 1968. The regular quarterly dividend of $1.00 per share on Melville's Series B preferred stock was declared payable March 1, 1968 to holders of record February 13, 1968.

To provide the number of shares required for the stock split and to increase the number of shares in reserve, the Board of Directors also proposed that the stockholders vote at the annual meeting to increase the authorized shares of common stock to 10,000,000 from 3,500,000. As of January 9, 1968, 2,790,458 common shares had been issued.

We further expanded our foreign operations during 1967.

Highlights

	1967	1966	Percent Change
Net Sales	$258,752,353	$234,313,064	+10.4
Net Earnings	14,370,223	11,191,530	+28.4
Dividends on Common Stock	4,393,102	3,462,498	+26.9
Net Earnings Per Share of Common Stock	5.08	3.88	+30.9
Dividends Per Share of Common Stock	1.60	1.25	+28.0
Net Earnings as a Percent of Net Sales	5.55%	4.78%	
Cash	23,864,263	21,085,450	+13.2
Inventories	47,269,022	41,156,921	+14.9
Net Working Capital	51,232,823	46,995,595	+ 9.0
Shareholders' Equity	58,298,100	51,039,305	+14.2
Number of Common Shares Outstanding*	2,741,638	2,765,114	— 0.9
Number of Stores	1,366	1,314	+ 4.0
Number of Employees	9,400	8,900	
Number of Shareholders: approximately 18,000			

*Based on average number of shares outstanding.

Thom McAn organized a second retailing unit in Canada and formed a new Canadian subsidiary to speed development of the promising Canadian footwear market. Plans are under way to organize 25 to 30 additional retailing organizations in Canada over the next few years. The Thom McAn chain also opened their 14th and 15th stores in Puerto Rico and plans to open another store there in 1968.

In acquiring its first factory outside the United States, Melville purchased an 80 percent interest in the Spanish company Calzados Manuel Reig, S. A. which manufactures men's shoes at Alicante. Del Mar Shoe Company, Inc. of Puerto Rico, a wholly owned subsidiary of Melville Shoe Corporation, was organized in 1967 and will operate from its new, modern factory to be completed in April of 1968.

Melville further increased its manufacturing capacity and expanded its distribution capabilities during the year as new plants went into production in Nashua, New Hampshire and Sparta, North Carolina; and the Meldisco division opened a modern 200,000 square foot warehouse in Brockton, Massachusetts.

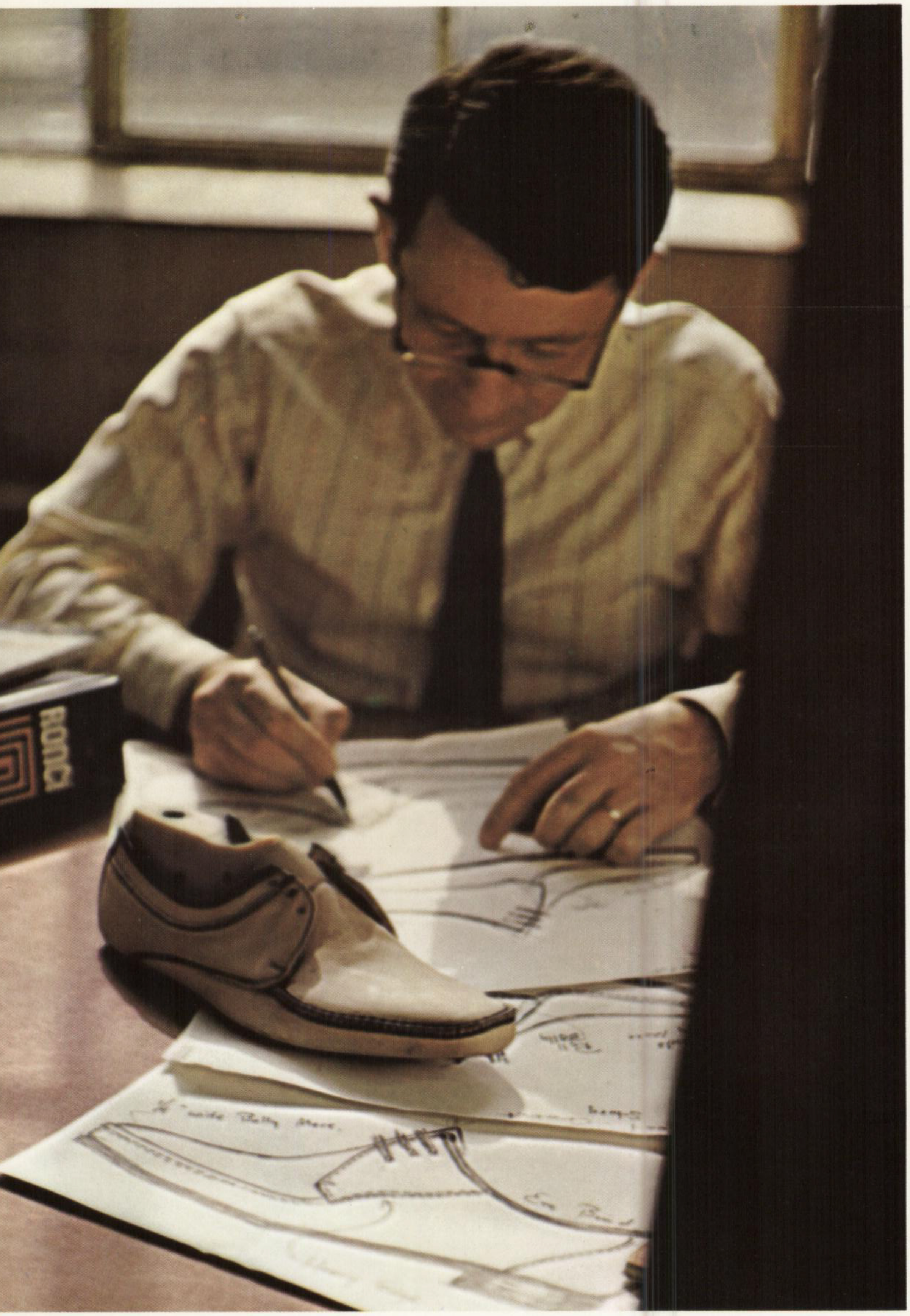
Assuming a favorable economy in 1968, Melville and its subsidiaries should continue to meet and exceed the schedule of progress set by management under its Five-Year Growth Plan.

Ward Melville

WARD MELVILLE
Chairman of the Board

Francis C. Rooney Jr

FRANCIS C. ROONEY, JR.
President



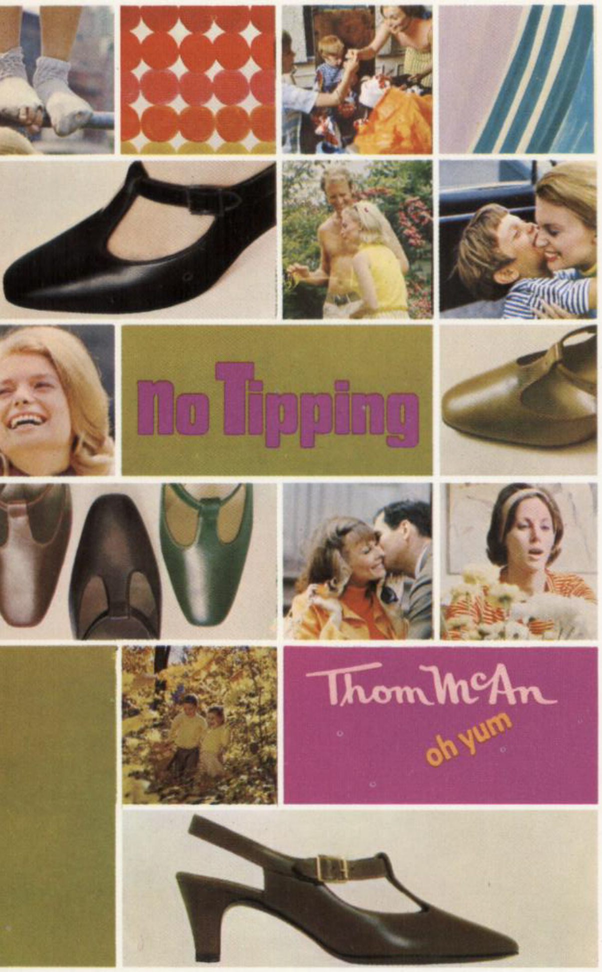
Styling: "WITH IT" in the "NOW" and the "NEW"

In 1967, as in recent years, Melville divisions created and produced a number of new styles in men's as well as women's footwear designed to be "with it" in appealing to the tastes and meeting the varied footwear wants of young, affluent families.

New and successful styles, models, ideas and techniques are a major product of Melville's consumer-oriented operations. The styling department runs its own pilot assembly line at the Nashua plant where it turns ideas into models in a matter of days. A continuing and well-developed "feed-back" of consumer information from the stores is vital in keeping styling up to the minute.

During 1967 Thom McAn further expanded and refined its "Bootmaster" line with the "TC" model featuring a "Totally Contoured" inner sole for "Total Comfort". This upgraded line, which sells for around $18.00, has proved a favorite with Thom McAn customers who want a higher priced, quality shoe.

Miles further established its role as a fashion leader in footwear for teen-age girls and young women during 1967, emphasizing the "young look" currently exemplified by today's low-heel styles, and constantly striving for the "now" and the "new" in lasts, materials, colors and designs as well as heel heights. The Thom McAn division also put new emphasis on styles for women with considerable success.



First we pad your foot, then build a shoe around it.

The next time you buy a shoe for its looks, better look inside and see how it's made.

Because some of the best looking shoes outside, can be bare, scratchy leather inside.

Pretty uncomfortable.

The inside of Thom McAn's Soft-Lined Roma is a different story.

Instead of raw leather, it has a soft foam padding.

Soft foam padding around the toes.

Soft foam padding around the heels.

And soft foam padding around the instep.

Even the padding's padded. (The padding is covered with a smooth necktie fabric.)

Sound pretty good?

Why not come in, take a test walk and feel for yourself?

Soft-Lined Roma by Thom McAn

These shoes can also be bought at better independent stores.

Advertising: A Climate of Excitement

In an era when millions of dollars of discretionary income are being spent out of choice rather than necessity, Melville advertising in all media surrounds its footwear with a climate of excitement appealing to consumer "wants" as well as "needs".

The Thom McAn prime-time television commercials continued to be among the most talked-about in the medium during 1967. Thom McAn also moved into daytime television in 1967 with commercials for its children's shoes. In two campaigns in major markets, Thom McAn introduced four-color newspaper advertisements utilizing a unique "mood" rather than informational approach to promote the sale of its women's shoes.

Appealing to its high-fashion young women's market, Miles dramatized outstanding style features in weekly advertisements in the mass-circulation New York Daily News. Miles also extended its advertising into the Washington, Baltimore, and Albany markets. Both Miles and Thom McAn continued strong emphasis on the teen-age market, running special promotional contests that generated heavy store traffic.

Miles tied in with the teen-age Cheetah Clubs, while Thom McAn built a sandals and slippers promotion around a vehicle much desired by teen-agers—a $12,000 custom-made surf-wagon, called a "woody" by surfers because of its wooden side-panels. Thom McAn also repeated and expanded its co-promotion with Pontiac featuring Wide Tracker shoes and the award of Pontiac GTO's and Firebirds to contest winners. Another major Thom McAn campaign was the pre-Christmas Bootmaster/Soft-lined Roma/Warm-lined Boots promotion for men's shoes.

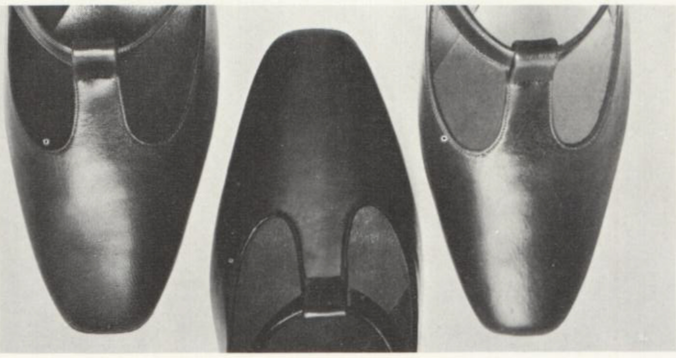
Merchandising: Power of Persuasion at Point-of-Sale

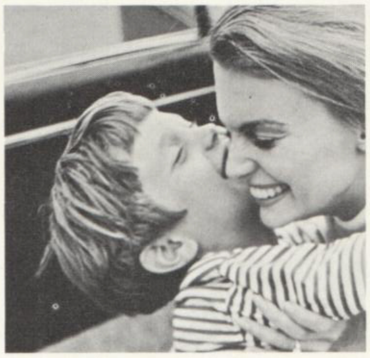
Melville made significant progress in 1967 in keeping up with today's emphasis on shopping environment. The new Thom McAn store in Concord, California, was planned specifically to capitalize on the favorable shopping environment of the covered mall. New interior design developments give the shopper greater opportunity to see and touch the merchandise. Thom McAn introduced a unit replacing the front-of-the-store glass showcase, which serves as a combination cash-wrap area and display unit. New fixtures for the open display and selling of hosiery, handbags and shoe-care products were also introduced during the year.

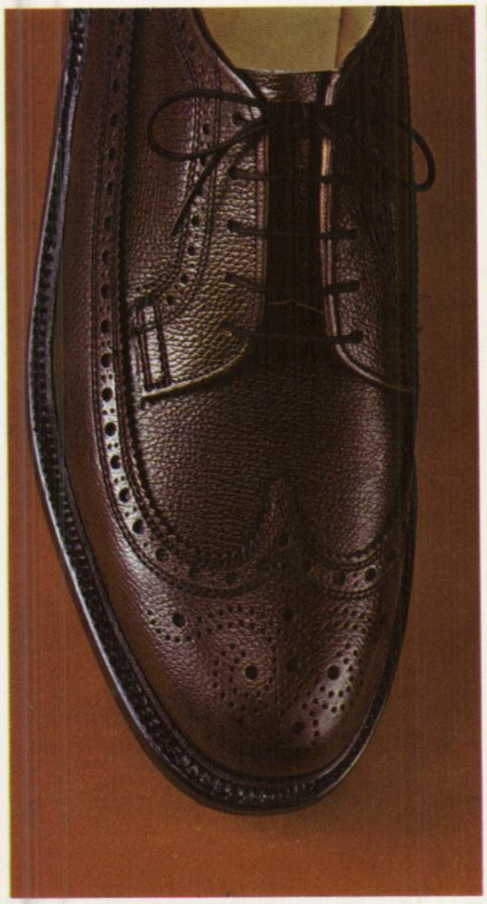
Under the store design program begun by Miles in 1966, more than half of all the stores operated by Miles and its subsidiaries will be either new or newly remodeled by 1970. One of the outstanding results of the Miles store modernization program is the largest store in the Miles chain, the Fulton Street store in downtown Brooklyn, New York. It boasts two full elaborately decorated, separately managed, fashion floors—a street floor for women's shoes and a lower level for the teens. The furnishings of the teen store include, among other innovations, close-to-the-floor "pads" where customers may sit to try on shoes.

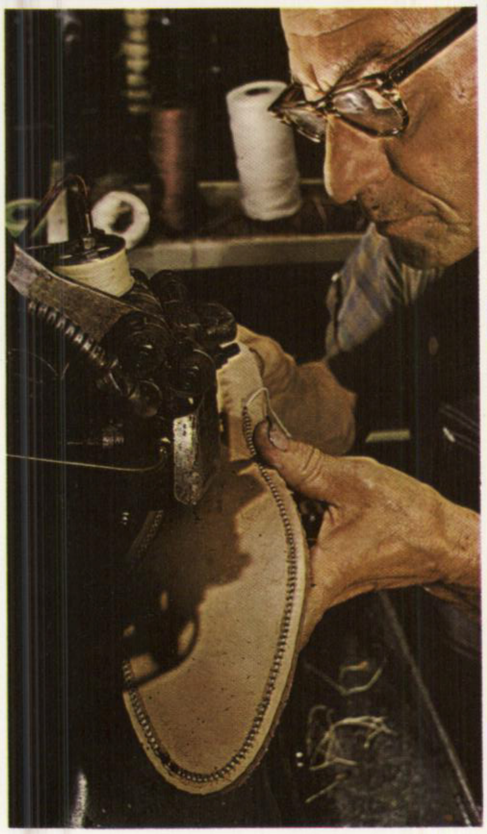
Meldisco also made significant advances in the improvement of its "shopping environment" through changes in departmental layouts based on scientific merchandising techniques calculated to make shopping easier and faster.

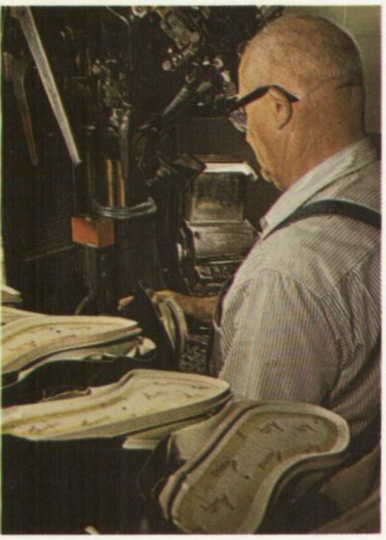
Window displays were further improved by all retail divisions during 1967 with Miles expanding installation of its new modular window background that makes possible simpler, better ordered, more attractive displays and reduces the costs of installation. The new Thom McAn store in Concord is considered a trend-setter in this regard in that it combines the increased volume potential of up-front, open-selling units with window displays.











Manufacturing and Distribution: Volume, Variety and Flexibility in a Fast-Moving Market

Melville's unusual degree of coordination between its sales and manufacturing operations, combined with the development of an advanced electronic data processing system, enables the Company to manufacture and supply the fastest-selling shoes to the stores operated by Melville and its retailing subsidiaries when the demand is the greatest. Such adaptability not only increases sales, but reduces costs and immeasurably improves customer services.

Production and efficiency were further increased in 1967 with the acquisition of the Spanish company and the opening of new plants in Nashua, New Hampshire; Sparta, North Carolina, and Puerto Rico.

Manufacturing innovations in 1967 included the development of a molded unit sole-heel for men's brogues and for casuals; the production of men's shoes with a contour inner sole; the first production of women's handsewns; the first production of Corfam juvenile shoes; and the expansion of the production of misses' and children's footwear.

Thom McAn accomplished a technical breakthrough in bringing its boys' shoes records completely under the control of electronic data processing from the initial order to the consumer's purchase with information covering style, size, width and location. This system—first in the Western Hemisphere involving control of a product category through optical reading of input documents—will result in fewer lost sales, better turnover, quicker response to consumer demand, lower markdowns and better return on capital.

A new 200,000 sq. ft. warehouse was completed in Brockton, Massachusetts. This modern, fully equipped installation will enable the Meldisco division to service the footwear departments of its retailing subsidiaries more rapidly and effectively. In 1968 Meldisco will experiment with satellite warehouses in order to accomplish almost immediate re-supply of sudden sell-outs on a local basis.

Melville Goes Where the People Are

Stores of Melville Shoe Corporation
and subsidiary companies as of December 31, 1967

THOM McAN 870 stores in 517 Cities in 43 States, District of Columbia and Commonwealth of Puerto Rico and Canada (Leased Department*, Agency**)

MILES SHOES 282 stores in 162 Cities in 15 States and the District of Columbia

MELDISCO 214 departments in 156 Cities in 33 States and Commonwealth of Puerto Rico

Alabama (8)
Birmingham (2)
Florence
Huntsville
Mobile (2)
Montgomery
Prichard

Arizona (7)
Mesa
Phoenix (4)
Tucson (2)

California (71)
Alameda
Alhambra
Anaheim
Bakersfield
Buena Park
Burbank
Canoga Park
Compton
Concord
Corte Madera
Costa Mesa (2)
Daly City
East Los Angeles
El Cajon
Fontana
Fullerton
Gardena
Garden Grove
Glendale
Hawthorne
Hayward
Hollywood
Huntington Beach
Huntington Park
Lakewood
Long Beach (2)
Los Angeles (4)
Modesto
Mountain View (2)
Napa
National City
North Hollywood
Norwalk
Oakland
Pasadena
Pomona
Redwood City
Reseda
Richmond
Riverside
Sacramento (3)
San Bernardino (2)
San Diego (3)
San Francisco (2)
San Jose (2)
San Leandro
San Mateo
Santa Ana
Santa Barbara (2)
Santa Maria
Santa Monica
Torrence
Van Nuys (2)
Ventura
West Covina
Whittier

Colorado (6)
Colorado Springs
Denver (4)
Westminster

Connecticut (31)
Bridgeport (2)
Derby
East Hartford
Hamden (2)
Hartford
Manchester (2)
Meriden (2)
Middletown
Milford (2)
New Britain
New Haven
New London
Orange
South Manchester
South Norwalk (2)
Stamford (2)
Torrington
Trumbull (2)
Waterbury (3)
West Hartford (2)

Commonwealth of Puerto Rico (16)
Arecibo
Bayamon
Caguas
Carolina
Fajardo
Mayaguez
Ponce (3)
Rio Piedras (3)
San Juan
Santurce (3)

Delaware (3)
Newark
Wilmington (2)

District of Columbia (6)
Washington (6)

Florida (53)
Bradenton
Coral Gables (2)
Daytona Beach
Fort Lauderdale (3)
Fort Myers
Fort Pierce
Gainesville
Hialeah
Hollywood
Homestead
Jacksonville (7)
Key West
Lakeland (2)
Largo
Lauderhill
Melbourne
Miami (8)
Miami Beach
Orlando (2)
Panama City (2)
Pensacola (2)
Sarasota
St. Petersburg (2)
Tallahassee (2)
Tampa (4)
W. Palm Beach (2)
Winter Haven

Georgia (15)
Albany
Atlanta (2)
Augusta (2)
Columbus (2)
Decatur
East Point
Forest Park
Macon
Marietta (2)
Rome
Savannah

Hawaii (2)
Honolulu (2)

Illinois (45)
Berwyn
Bloomington
Chicago (23)
Chicago Heights
Decatur
Elmhurst
Glen Ellyn
Harvey
Hillside
Joliet
Kankakee
Matteson
Moline
Morton Grove
Mt. Prospect
Norridge
Peoria
Quincy
Rockford
Rock Island
Springfield (2)
Villa Park

Indiana (19)
Elkhart
Evansville
Fort Wayne (2)
Gary (2)
Hammond (2)
Indianapolis (6)
Logansport
Mishawaka
Muncie
Richmond
South Bend

Iowa (1)
Davenport

Kansas (1)
Overland Park

Kentucky (7)
Bowling Green
Covington
Lexington (2)
Louisville
Owensboro
Paducah

Louisiana (11)
Baton Rouge (2)
Gretna
Lake Charles (2)
Metairie (2)
New Orleans (3)
Shreveport

Maine (3)
Lewiston
Portland (2)

Maryland (36)
Baltimore (16)
Carney
Cumberland
District Heights
Essex
Forestville
Frederick
Glen Burnie (2)
Hagerstown (2)
Hillcrest Heights
Hyattsville (3)
Laurel (2)
Rockville (2)
Wheaton
White Oak

Massachusetts (57)
Boston (13)
Allston
Boston (3)
Dorchester (2)
East Boston
Hyde Park
Roslindale (2)
Roxbury (2)
South Boston
Brockton
Cambridge (2)
Chelsea
Dedham
Everett
Fall River (2)
Fitchburg
Framingham
Haverhill
Hingham
Holyoke
Lawrence
Lowell
Lynn (2)
Malden
Medford (2)
Natick (2)
New Bedford
Norwood**
Peabody
Pittsfield (2)
Quincy (2)
Revere
Rockland
Salem
Saugus
Shrewsbury
Somerville
Springfield (3)
Stoneham
Waltham
Woburn
Worcester (3)

Michigan (25)
Dearborn
Detroit (5)
East Detroit
Ferndale
Flint
Inkster
Jackson
Kalamazoo
Lansing
Livonia (2)
Monroe
Muskegon
Pontiac
Port Huron
Roseville
Saginaw (2)
Warren
Wayne
Wyandotte

Minnesota (2)
St. Paul (2)

Mississippi (7)
Biloxi*
Hattiesburg
Jackson
Meridian
Natchez
Vicksburg (2)

Missouri (16)
Florissant
Grandview
Jennings
Kansas City (3)
Maplewood
Mehlville
St. Ann
St. Joseph
St. Louis (6)

Nevada (1)
Reno

Nebraska (1)
Omaha

New Hampshire (2)
Manchester
Portsmouth

New Jersey (122)
Asbury Park (2)
Atlantic City
Audubon
Bayonne (2)
Belleville
Bergenfield (2)
Bloomfield (2)
Camden (2)
Clifton (3)
Dover
East Brunswick
East Paterson
Eatontown
Edison Township
Elizabeth (2)
Englewood
Fairlawn
Freehold
Hackensack (3)
Hamilton Township
Harrison
Hazlet
Hoboken (2)
Irvington (2)
Jersey City (11)
Levittown
Linden (2)
Long Branch
Maple Shade
Metuchen
Middletown
Moorestown (2)
Morristown (2)
Mt. Ephraim
Neptune
Newark (9)
New Brunswick (2)
North Arlington
North Bergen
North Brunswick
Orange (2)
Paramus (5)
Passaic (2)
Paterson (2)
Perth Amboy (2)
Phillipsburg
Plainfield (2)
Pompton Lakes
Pompton Plains
Ramsey (2)
Raritan Township
Red Bank (2)
Somerville (2)
South Plainfield
South River
Trenton (3)
Union (3)
Union City (2)
Verona
Vineland
Watchung (2)
Wayne
West New York (2)
West Orange (2)
Westwood
Willingboro
Woodbridge (2)

New Mexico (2)
Albuquerque (2)

New York (291)
Albany (4)
Amherst (2)
Amsterdam
Babylon (2)
Bay Shore (2)
Bethpage
Binghamton
Buffalo (3)
Centereach
Cheektowaga
Clarence
Colonie (2)
Commack (2)
Delmar
Dewitt
East Huntington
East Syracuse
Eggertsville
Elmira
Franklin Square
Freeport (2)
Glen Cove
Glens Falls
Great Neck
Greece (2)
Greenburgh
Hempstead (2)
Hicksville (3)
Huntington (3)
Ithaca
Jamestown
Kingston (2)
Lake Success (2)
Latham
Levittown (3)
Lynbrook
Manhasset
Massapequa
Massapequa Park
Massena
Middletown
Mount Vernon (2)
Nanuet
Newburgh (3)
New Cassel
New Hartford
New Hyde Park
New Rochelle (2)
New York (167)
Manhattan (35)
Bronx (31)
Brooklyn (54)
Queens (42)
Richmond (5)
Niagara Falls (3)
Patchogue (3)
Peekskill (3)
Pelham
Pelham Manor
Plainview
Port Chester (4)
Poughkeepsie (4)
Riverhead (2)
Rochester (5)
Rockville Centre
Roosevelt Field (2)
Schenectady (2)
Smithtown
Syracuse
Tonawanda
Troy
Utica (2)
Valley Stream (2)
Wantagh
Wappinger Falls
West Islip
West Seneca
White Plains (2)
Yonkers (5)

North Carolina (21)
Asheville
Charlotte (5)
Concord
Durham (2)
Greensboro (2)
Hickory
High Point
Jacksonville
Raleigh (2)
Wilmington
Wilson
Winston Salem (3)

Ohio (63)
Akron (2)
Alliance
Barberton
Canton (2)
Cincinnati (2)
Cleveland (12)
Cleveland Heights
Columbus (6)
Cuyahoga Falls
Euclid (2)
Fairborn
Hamilton (2)
Lorain (2)
Lyndhurst
Mansfield (2)
Maple Heights (2)
Medina
North College Hill
North Olmsted
Norwood
Parma (4)
Parma Heights
Portsmouth
Richmond Heights
Sandusky
Springfield
Steubenville
Tallmadge
Toledo (3)
Warren (2)
Willowick
Youngstown (2)

Oklahoma (3)
Oklahoma City
Tulsa (2)

Oregon (2)
Portland (2)

Pennsylvania (69)
Allentown
Altoona
Baden
Beaver Falls
Bethlehem
Braddock
Bridgeville
Broomal
Cheltenham
Chester
Easton
Erie (2)
Greensburg (2)
Harrisburg
Havertown
Hazleton
Homestead
Johnstown
King of Prussia
Langhorne
Levittown
McKeesport (2)
Meadville
Monroeville
Natrona Heights
New Castle
New Kensington
Philadelphia (15)
Pittsburgh (7)
Plymouth Meeting
Pottsville (2)
Reading
Scranton (3)
Sharon
Springfield
Uniontown
Upper Darby
Wilkes-Barre
Williamsport
Woodlyn
York (3)

Rhode Island (10)
Newport
Pawtucket (2)
Providence (3)
Warwick
Westerly
West Warwick
Woonsocket

South Carolina (8)
Charleston
Charleston Heights
Columbia (2)
Florence
Greenville
Spartanburg (2)

Tennessee (12)
Chattanooga (3)
Johnson City
Madison
Memphis (5)
Nashville (2)

Texas (43)
Abilene
Austin (2)
Beaumont
Brownsville
Corpus Christi (3)
Dallas (5)
El Paso (3)
Fort Worth (2)
Galveston
Houston (10)
Irving
Laredo
McAllen
Pasadena
Port Arthur
San Antonio (7)
Victoria
Waco

Utah (4)
Ogden
Provo
Salt Lake City (2)

Vermont (1)
Burlington

Virginia (27)
Alexandria (3)
Annandale
Charlottesville
Clarendon
Falls Church (2)
Hampton
Harrisonburg
Lynchburg
Newport News
Norfolk (4)
Petersburg
Portsmouth
Richmond (4)
Roanoke (2)
Springfield
Virginia Beach
Warwick

Washington (7)
Everett
Seattle (3)
Spokane (2)
Tacoma

West Virginia (4)
Charleston
Huntington
Parkersburg
Wheeling

Wisconsin (9)
Appleton
Brookfield Square
Greenfield
Madison
Milwaukee (3)
Oshkosh
West Allis

Canada (2)
Toronto (2)

Financial Review

EARNINGS

The consolidated net earnings for the year 1967 reached a new high amounting to $14,370,223 as compared with $11,191,530 a year ago, an increase of 28.4%. Earnings per common share were $5.08 for 1967, a 30.9% increase over the $3.88 per common share reported for 1966.

DIVIDENDS

The Company in January 1968 increased the quarterly dividend on common stock to $.55 per share from $.40 per share increasing the dividend to an annual rate of $2.20 per share compared to $1.60 paid in 1967.

SALES

Consolidated net sales for the year 1967 reached a new high totaling $258,752,353, an increase of 10.4% or $24,439,289 over the 1966 net sales of $234,313,064.

PROPERTY, PLANT AND EQUIPMENT

Capital expenditures increased $1,464,212 in 1967 amounting to $6,409,479 as compared to $4,945,267 expended in 1966. Depreciation charged for the year 1967 was $3,455,002 as compared to $3,292,439 in 1966.

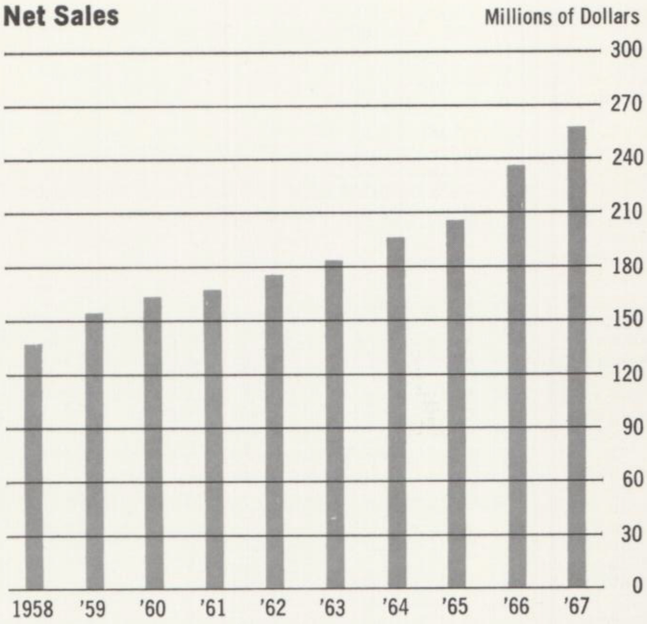
CAPITAL STOCK

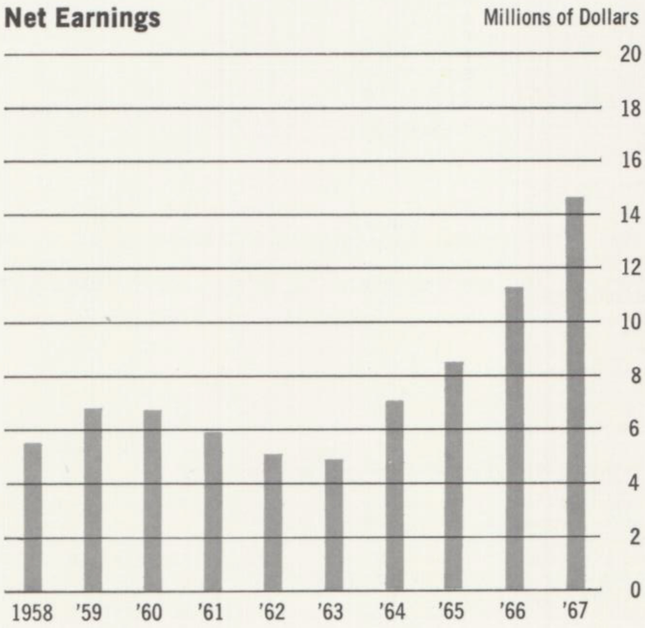
In January 1968, the Board of Directors voted recommendations to the stockholders for approval at the annual meeting on April 9, 1968, to split the common stock on a 2 for 1 basis and to increase the authorized common shares from 3,500,000 to 10,000,000 shares.

DISTRIBUTION OF SALES REVENUE

	1967	1966
Received from the sale of products	$258,752,353	$234,313,064
Paid for materials, merchandise and all expenses, exclusive of taxes and other amounts paid to or for the benefit of employees	171,783,246	159,496,897
Remainder	86,969,107	74,816,167
This was divided as follows:		
Wages and compensation	57,279,005	51,827,387
Taxes	15,319,879	11,797,250
Paid to shareholders or retained in the business	14,370,223	11,191,530

In 1967, after payment for materials, merchandise, taxes and other necessary expenses, 80% of the balance went to 9,400 employees and 20% was paid to shareholders or retained in the business.





Statement of Consolidated Financial Condition

as of December 31, 1967 and 1966

Assets

	1967	1966
Current assets:		
Cash	$ 23,864,263	$ 21,085,450
Accounts receivable, less provision for losses	4,547,924	3,674,205
Inventories—at lower of cost (15% valued at lifo) or market, principally by the retail method	47,269,022	41,156,921
Prepaid expenses	1,670,515	1,358,186
Total current assets	77,351,724	67,274,762
Property, plant, equipment and leasehold improvements, at cost:		
Land	1,298,198	1,298,198
Buildings	6,618,604	5,999,797
Machinery and equipment	5,149,609	5,383,655
Store and office fixtures, improvements to leased properties and miscellaneous equipment	44,384,228	40,634,518
	57,450,639	53,316,168
Less:		
Accumulated depreciation and amortization	36,557,588	34,939,350
Net property, plant, equipment and leasehold improvements	20,893,051	18,376,818
Unamortized debt discount and expense	183,480	198,156
	$ 98,428,255	$ 85,849,736

See accompanying notes to financial statements.

MELVILLE SHOE CORPORATION
and subsidiary companies

Liabilities

	1967	1966
Current liabilities:		
Accounts payable and accrued expenses	$ 18,527,895	$ 13,245,713
Federal income taxes	6,897,006	6,342,454
Current installments on long-term debt	694,000	691,000
Total current liabilities	26,118,901	20,279,167
Long-term debt:		
4⅞% Debentures, due 1980 (annual sinking fund requirement $600,000)	8,400,000	9,000,000
3½% Promissory Note, due 1984, payable in quarterly installments	1,971,000	2,065,000
	10,371,000	11,065,000
Deferred credit (note 1)	1,206,471	1,337,164
Deferred Federal income taxes (note 2)	483,571	669,014
Lease obligations for closed stores	1,950,212	1,460,086

Shareholders' Equity

	1967	1966
Capital Stock (notes 3 and 4):		
Preferred stock, Series B, $4.00 dividend	11,841,900	11,841,900
Common stock	12,284,194	12,284,194
	24,126,094	24,126,094
Retained earnings	38,293,398	28,981,895
	62,419,492	53,107,989
Less cost of common and preferred shares held in treasury	4,121,392	2,068,684
	58,298,100	51,039,305
	$ 98,428,255	$ 85,849,736

Commitments (Note 5)

Statement of Consolidated Earnings

Years ended December 31, 1967 and 1966

	1967	1966
Net sales	$258,752,353	$234,313,064
Cost of goods sold, buying and warehousing costs	149,051,043	138,092,532
	109,701,310	96,220,532
Store operating, selling, general and administrative expenses	82,503,325	74,754,115
Depreciation and amortization	3,455,002	3,292,439
Interest charges	583,966	661,833
	86,542,293	78,708,387
	23,159,017	17,512,145
Other income—net	249,206	120,385
Earnings before Federal income taxes	23,408,223	17,632,530
Provision for Federal income taxes (note 2)	9,038,000	6,441,000
Net earnings	$ 14,370,223	$ 11,191,530
Net earnings per share—common stock	$ 5.08	$ 3.88

Statement of Consolidated Retained Earnings

Years ended December 31, 1967 and 1966

	1967	1966
Retained earnings at beginning of year	$ 28,981,895	$ 21,866,262
Add: Net earnings for year	14,370,223	11,191,530
	43,352,118	33,057,792
Deduct:		
Cash dividends paid:		
Preferred stock, Series B, $4.00 a share	439,438	459,706
Common stock, $1.60 a share; 1966 $1.25 a share	4,393,102	3,462,498
Excess of cost over proceeds from sales of treasury stock under qualified stock option plan	226,180	153,693
	5,058,720	4,075,897
Retained earnings at end of year	$ 38,293,398	$ 28,981,895

See accompanying notes to financial statements.

MELVILLE SHOE CORPORATION
and subsidiary companies

Notes to Financial Statements

1. RETIREMENT PLANS

The company's provision under pension plans aggregated $907,802 for the year; such amount includes amortization over a thirty-year period of prior service costs, less amortization at the rate of $130,000 per annum of a deferred credit of $1,206,471 representing the amount provided under one of the plans prior to adoption of funding.

The total of pension funds and provision for pensions was in excess of the actuarially computed value of vested benefits as of December 31, 1967.

2. DEFERRED FEDERAL INCOME TAXES

Certain charges in the financial statements differ in amount from those recorded in tax returns. These differences arise from (a) use of the straight-line method of depreciation as contrasted with use of an accelerated method for tax purposes and (b) accrual of aggregate lease obligations and related expenses relative to stores closed during the year which for tax purposes are deducted as incurred. The provision for Federal income taxes charged to earnings has been reduced by the net tax effect of such differences which approximated $310,000 in 1967 and $778,000 in 1966. The cumulative net deferred Federal income taxes resulting from such differences are attributable to accelerated depreciation, $1,419,671 (deferred credit) and accrual of lease obligations on closed stores, $936,100 (deferred charge).

3. CAPITAL STOCK

Authorized preferred stock consists of 221,769 shares of cumulative preferred stock of $100 par value (issuable in series), of which 118,419 shares were issued as Series B $4.00 cumulative preferred stock. Such shares are redeemable at the option of the company at par value. During the year, 4,993 shares of Series B were purchased for $379,752 for sinking fund purposes increasing treasury shares to 11,333 at a cost of $896,119.

Authorized common stock consists of 3,500,000 shares at $1 par value, of which 2,790,458 shares have been issued. During the year, 33,700 shares were acquired for $2,236,881 of which 16,654 were delivered under the stock option plan leaving 63,235 shares in treasury at a cost of $3,225,273.

A two for one split and increase in authorized common shares to 10,000,000 has been authorized by the Board of Directors subject to approval of shareholders at the annual meeting in April 1968. Also subject to approval of shareholders, the company recently adopted an incentive stock purchase plan for certain management employees.

4. STOCK OPTIONS

In August, 1967 the shareholders approved amendments to the stock option plan to (a) increase common shares subject to options that may be granted to key managerial employees from 100,000 to 200,000 shares; (b) remove the restriction on grant of more than 10,000 shares to any individual; (c) extend the duration of the plan from February 24, 1974 to July 5, 1977 and (d) reduce the minimum period of time between grant and exercise of options from two years to one year.

Transactions during the year are as follows:

	Number of Shares	Price Range Per Share
Options granted but not exercised at January 1, 1967	56,522	$19.875-$34.50
Add: Options granted	33,500	$68.375
	90,022	
Deduct: Options exercised	(16,654)	$19.875-$23.25
Options cancelled	(2,834)	$19.875-$34.50
Unexercised options at December 31, 1967	70,534	$19.875-$68.375

At December 31, 1967 options for 1,530 shares were exercisable and 101,501 are available for grant under the plan.

5. COMMITMENTS

Total minimum annual rentals (exclusive of amounts based on sales) payable under leases amounted to approximately $13,400,000 at December 31, 1967. Such leases will expire on various dates to 1989; however, it is anticipated that as leases expire they will be renewed or new leases will be executed. Total rent expense for the year amounted to approximately $18,900,000.

Accountants' Report

To the Board of Directors and Shareholders
MELVILLE SHOE CORPORATION:

We have examined the statement of consolidated financial condition of Melville Shoe Corporation and subsidiary companies as of December 31, 1967 and the related statements of consolidated earnings and consolidated retained earnings for the year then ended. Our examination which included the accompanying statement of consolidated source and application of funds for the year ended December 31, 1967 was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statement of consolidated financial condition and statements of consolidated earnings and consolidated retained earnings present fairly the financial position of Melville Shoe Corporation and subsidiary companies at December 31, 1967 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion the accompanying statement of consolidated source and application of funds for the year ended December 31, 1967 presents fairly the information shown therein.

New York, New York
February 23, 1968

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants

Ten Year Financial Summary

	1967	1966	1965	1964	1963	1962
Results for the Year						
(000's omitted) Net Sales	$258,752	$234,313	$203,545	$195,171	$182,403	$176,448
Wages and Compensation	57,279	51,827	46,122	44,305	41,768	41,648
Taxes—All	15,320	11,797	9,866	10,062	8,192	8,617
Earnings Before Federal Income Taxes	23,408	17,633	13,668	12,337	8,462	9,150
Net Earnings	14,370	11,192	8,418	7,111	4,814	4,987
Dividends Paid	4,833	3,922	3,281	2,779	4,196	5,050
Per Share Results of Common Stock						
Net Earnings	$ 5.08	$ 3.88	$ 2.84	$ 2.35	$ 1.52	$ 1.58
Dividends	1.60	1.25	1.00	.80	1.30	1.60
Taxes—All	5.59	4.27	3.54	3.61	2.94	3.09
Book Value	17.36	14.47	12.24	10.33	8.78	8.56
End of Year Position						
(000's omitted) Current Assets	$ 77,352	$ 67,275	$ 61,596	$ 58,702	$ 49,782	$ 50,247
Current Liabilities	26,119	20,279	18,745	17,273	13,694	15,529
Current Ratio	2.96	3.32	3.30	3.40	3.64	3.24
Property, Plant and Equipment						
(000's omitted) At Cost	$ 57,451	$ 53,316	$ 50,361	$ 47,167	$ 47,317	$ 47,100
Net After Accumulated Depreciation	20,893	18,377	17,350	16,030	17,927	19,441
Capital Additions	6,409	4,945	4,971	2,046	2,356	3,328
Depreciation	3,455	3,292	3,148	3,272	3,308	3,346
Percent to Net Sales						
Earnings Before Federal Income Taxes	9.05%	7.53%	6.72%	6.32%	4.64%	5.19%
Net Earnings	5.55%	4.78%	4.14%	3.64%	2.64%	2.83%
Percent Net Earnings to Shareholders' Equity	28.16%	24.41%	19.87%	18.52%	12.64%	13.37%
Number of Stores	1,366	1,314	1,275	1,250	1,244	1,249

1961	1960	1959	1958
$165,867	$161,594	$151,710	$136,436
39,619	40,029	36,458	35,014
8,839	8,808	8,564	7,453
11,091	11,917	12,246	10,425
5,988	6,608	6,743	5,566
5,065	4,870	4,416	4,980
$ 1.93	$ 2.15	$ 2.18	$ 1.76
1.60	1.52½	1.35	1.55
3.17	3.16	3.07	2.67
8.17	7.77	7.37	6.72
$ 50,432	$ 50,114	$ 38,287	$ 35,252
14,495	13,496	13,484	12,260
3.48	3.71	2.84	2.88
$ 44,695	$ 41,600	$ 38,442	$ 32,210
19,637	18,230	16,539	12,256
4,610	4,409	3,688	3,549
3,073	2,714	2,528	3,082
6.69%	7.37%	8.07%	7.64%
3.61%	4.09%	4.44%	4.08%
16.01%	18.07%	19.02%	15.99%
1,212	1,156	1,110	1,053

MELVILLE SHOE CORPORATION

and subsidiary companies

Statement of Consolidated Source and Application of Funds

Years Ended December 31, 1967 and 1966

	1967	1966
Source of Funds:		
Net Income	$14,370,223	$11,191,530
Depreciation	3,455,002	3,292,439
Increase (decrease) in deferred Federal income taxes	(185,443)	(701,474)
Proceeds from sale of treasury stock under stock option plan	337,745	224,808
Disposition of property, plant and equipment	438,244	625,599
Increase in provision for lease obligations on closed stores	490,126	1,460,086
	18,905,897	16,092,988
Application of Funds:		
Additions to property, plant and equipment	6,409,479	4,945,267
Reduction in long term debt	694,000	691,000
Purchase of treasury stock—common	2,236,881	1,930,817
Purchase of treasury stock—preferred	379,752	374,743
Cash dividends on preferred and common stock	4,832,540	3,922,204
Other—net	116,017	84,334
	14,668,669	11,948,365
Net increase in working capital	$ 4,237,228	$ 4,144,623

Officers and Directors

MELVILLE SHOE CORPORATION

25 West 43rd Street, New York, N. Y. 10036

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Robert McDonald
Frank Melville
Spencer D. Oettinger
Francis C. Rooney, Jr.
Michael M. Rosenberg
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Spencer D. Oettinger
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Thomas P. Campbell, Jr.
Gilbert G. Kemnitz
Bertha K. Smith

COUNSEL: Davis Polk & Wardwell

AUDITORS: Peat, Marwick, Mitchell & Co.

TRANSFER AGENT: Irving Trust Company, 1 Wall Street, New York, N. Y. 10015

REGISTRAR: First National City Bank, 55 Wall Street, New York, N. Y. 10015

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